

JACOBSEN

The Selling Organization of
the American Tobacco Company

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THE SELLING ORGANIZATION OF THE
AMERICAN TOBACCO COMPANY

BY

WALTER HERMAN JACOBSEN

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THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

Walter Herman Jacobsen

ENTITLED The Selling Organization of the American
Tobacco Company

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

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Simeon Littauer

Instructor in Charge

APPROVED:

Ernest R. Dewsmp

-/c HEAD OF DEPARTMENT OF

Economics



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THE SELLING ORGANIZATION OF THE AMERICAN TOBACCO COMPANY.

Chapter I.

When a single corporation attains a position of supremacy and monopolistic control in its particular industry,, there are usually a large number of conditions to which such a company owes its success. This has been true in the case of most of our large industrial combinations or so-called "trusts", but the American Tobacco Company presents a somewhat different problem.

The American Tobacco Company may be characterized as an example of that type of industrial combination which, merely by virtue of a large working capital, became so successful in crushing its competitors that it came into possession of a large part of the entire tobacco market.

The Standard Oil Company, the United States Steel Corporation, and others of our large corporations have been equally as successful in their respective lines, but the reasons for their successes have been different.

The Tobacco Trust did not owe its success to discriminating freight rates, nor to the control of raw materials, both of which have been such great influences in the development of the two companies just mentioned¹; neither can we say that the Tobacco Company had advantages of superior methods of production protected by patent rights; nor, with respect to the marketing and sale of goods, has it enjoyed any resources which are legally denied to its competitors.

While the object of this thesis is to make a study of methods

1. Jacobstein: Tobacco Industry in the United States - p. 101.

employed by the Tobacco Company as it was, and as it is today, with special attention to the distribution and sale of its product, it might be well to trace briefly the historical development of the tobacco industry, and see the conditions which made a Tobacco Trust possible.

About 1865, the cigar industry was carried on almost entirely by the household or domestic method. There was, as yet, no machinery and naturally the production of cigars was carried on in many small establishments. In 1890, there were about 23,000 small producers, each having about three employees, and an average working capital of \$1500.¹ Each little concern supplied only the local trade. Such a decentralized industry was not prepared for a combination of interests, nor in any degree susceptible to the trust form of organization.²

The plug, chewing tobacco, and smoking tobacco industries presented more favorable conditions. In 1890, an output valued at \$65,000,000³ was produced in only 395 establishments. The number of employees in each concern averaged from 50 to 1,000.

It was in the cigarette business, however, that the idea of concentration really began. Cigarettes were a machine-made product, and because of this fact, there was no such widespread participation in their manufacture, as had been the case in the cigar industry. The introduction of the "Bonsack" and "Eliot" machines for making cigarettes marked a period of fierce competition among the producers. This resulted in great losses to all of the concerns, brought on by price-cutting.³ To remedy matters, Mr. J. B. Duke,, owner of the "Bonsack" machine, conceived a plan of organization of the largest

¹ U.S. Census, 1890, Part II, - p. 807, see also Jacobstein, p. 102.

² U.S. Census, 1890, Part I,- p. 313.

See Appendix III for table showing number of establishments and persons employed in 1909 (From U.S. Census, 1910).

manufacturers. At that time 95% of the entire output was being produced in four cities, New York, Rochester, Durham and Richmond.¹

As has been noted, the main reason for concentration in the cigarette business was the technical conditions of the trade, which called for a large capital investment and large-scale production. The fact that the invention of machinery led to wasteful competition among the various producers naturally resulted in a combination of interests as a means of overcoming this difficulty. Moreover, the size and extent of the industry at the time offered no serious obstacle to such an action.

Mr. Duke succeeded in his attempt, and five of the most important companies, namely, W. Dukes & Son, Allen Ginter, W. S. Kimball, Goodwin & Co., and the Kinney Tobacco Co., were organized into a single corporation in 1890. The new company became known as the American Tobacco Company.² It had a capital of \$10,000,000 of preferred, and \$15,000,000 of common stock, and the Commissioner of Corporations, in his report on the industry estimated that for the first five years of its existence the annual profits had exceeded \$4,000,000.

In spite of its great size and predominance, the new company did not, however, exercise a monopolistic control. Independent manufacturers were able to produce and compete on equal terms with the new company.

Tobacco is a commodity the cultivation of which can be easily extended, and it was impossible for any one concern to control the supply of raw materials. Discrimination in freight rates was not enjoyed by the company to any extent, and besides transportation charges constitute such a small part of the total cost of production

1. Jacobstein: Tobacco Industry in U. S. - p. 102.

2. Report of the Commissioner of Corporations - (1909) - Part I. p.66.

in the tobacco business, that this could not have been an important factor.

Direct competition was the only means left which the new company could make use of in its efforts to control the market, and it adopted this means at once to cause the independent producers to surrender. One by one the various small companies gave way, and the trust, if we may call it such, had grown to such an extent, that, by 1898 its capital was increased to \$70,000,000.

The new company had also been extending its interests in the smoking, plug, chewing, and snuff industries. It already had a strong hold upon the retailers, caused by its control of cigarettes;

by giving rebates on the leading cigarette brands, it induced them to push its brands of smoking and plug tobacco. After purchasing the large plug interests of the Drummond Tobacco Co., and Brown Tobacco Company of St. Louis, the Continental Tobacco Company was formed in October, 1898. This was a creation of the American Tobacco Co., Mr. Duke being President of both concerns. With the absorption of Liggett and Myers, in 1899, after a fierce competitive war, the Continental Company was in control of at least 75% of the entire plug business.¹

The next step was the amalgamation of the American Tobacco Company and the Continental, in 1901, into a holding company of New Jersey known as the Consolidated Tobacco Company.

We can see how the trust was determined to gradually extend its control over all the branches of the industry. The next field, the cigar business, it invaded in 1901. This presented a somewhat different problem, since the cigar business was controlled by a large number

1. Report of the Commissioner of Corporations - Part I - p. 102.
2. Jacobstein: Tobacco Industry in U. S. - p. 109.

of small and independent producers. The trust attempted experimentation with machines for making cigars, since its cigarette monopoly had been so greatly strengthened by the control of patents, but the machines were not of so great importance in the manufacture of any but the cheapest grades of cigars.

To solve this problem the American Cigar Co., a \$10,000,000 corporation, was organized in 1901 by the trust. It was unusually successful in buying up various smaller concerns, and finally controlled 25% of the trade.¹

Having firmly established itself as being in practical control of the tobacco business of the United States, the company next turned its attention to conditions abroad. The governments of France, Italy, Spain, Austria, and some minor European countries exercised a monopoly over the tobacco trade, so that invasion of these fields was impossible.

In Germany, the trust purchased some of the largest tobacco concerns, and began a war of competition against the independent companies. Likewise, the Mexican interests were bought out in 1902.²

It was the Companies in Great Britain, however, which furnished the most obstinate resistance. The first move was the purchase of Ogdens, Limited, a large tobacco concern in Liverpool. When under the control of the American interests this company began cutting prices on cigarettes, and, as a means of protection, the Imperial Tobacco Company was organized by the independent English companies, with a capital of \$100,000,000. A competitive struggle followed, and the ultimate result was the reorganization of the two companies into the British-American Company.³

1. Jacobstein: Tobacco Industry in U. S. - p. 109.
2. Jacobstein: Tobacco Industry in U. S. - p. 113.
3. Jacobstein: Tobacco Industry in U. S. - p. 113.

In 1904 a still further reorganization took place, and the original American Tobacco Company, the Continental Company, and the Consolidated Company, were merged into one gigantic company known as the American Tobacco Co., of New Jersey. This company now owned all the properties, plants, etc., of the parent and all subsidiary companies. The new company was authorized to issue \$180,000,000 of stock.¹ Besides its numerous tobacco interests, this company also owned or controlled a licorice plant, a tinfoil factory, a pipe manufacturing concern, a plant for manufacturing cigarettes, making machinery, and many wholesale and retail agencies.

As to how this single organization reached this point of absolute supremacy, there is some diversity of opinion. But the idea most generally accepted seems to be that the methods of competition which were employed by the American Tobacco Co. were the means by which it grew to such importance.

It is with these methods of competition that we are most interested, and especially with those which were employed in the selling departments of the company.

1. Report of Commissioner of Corporations - Part I - p. 131.

Chapter II.

The control of a particular industry is usually effected either by the monopolization of the raw materials, or by the development of such an organization for the distribution of the manufactured goods as will drive out competition.

The American Tobacco Company looked to this latter method as the best means of establishing its control over the tobacco industry, and the policies first adopted were those of gaining either partial or complete control of concerns which were engaged in distribution of tobacco products, and the making of agreement with independent jobbers and retailers, inducing them to handle only American Tobacco Company goods.

When the company was first organized, each subsidiary or branch acted as its own distributor to the wholesale trade. All orders for goods had to be sent to the plants manufacturing the particular brands desired, and these plants made their own collection.¹

Some of these concerns, in addition to distributing their own products, also acted as agents for the product of the American Tobacco Company, and in a few cases for the products of other subsidiary companies. The Monopol Tobacco Works, for instance, acted as distributing agent for the high grade smoking tobaccos made by the American Tobacco Company, and likewise for the John W. Carroll Tobacco Company. The John Bollman Company, aside from its own products, also sold the cigarettes of the American Tobacco Company, and acted as distributor for S. Anargyros to the Pacific Coast trade.²

The reason that the majority of these companies distributed

1. Report of the Commissioner of Corporations on the Tobacco Industry- Part I - p. 256.
2. Report of the Commissioner of Corporations on the Tobacco Industry- Part I - p. 257.

their own products directly to the trade, however, was that some of them had been controlled thru secret acquisition, and it was not desirable that their relation to the Combination should be known.

There was also another reason for the adoption of this plan. The tobacco manufacturer was at that time, and in fact, is today in a position somewhat different than the producers of most other commodities. His success depends entirely upon the attitude of the customer toward his product, and the value of a trade name and good will of the manufacturer of a certain brand of tobacco is very great. Moreover, many of the subsidiary companies manufactured products which were quite distinct from those made by the parent company.¹

With the growth of the number of concerns controlled, it was thought advisable to have the sale of certain brands transferred to the central office at New York. Formerly, only a few brands of high grade smoking tobaccos had been sold thru the home office, but after 1895 the new policy was adopted. This method applies only to the manufacturing concerns of the American Tobacco Company proper, and not to the subsidiary companies belonging to the group.²

The selling department of the American Tobacco Company has its central office at 111 5th Ave., New York City. From this office salesman are sent throughout the United States, each having charge of a specified territory, and each devoting his entire time to the soliciting of orders for one particular class of products. The orders taken by these salesman as well as all mail orders, are received at this central office.²

Some brands which had a very large sale, were made at several different factories, and in order to save freight, the orders were filled at the nearest factory. This applied specially to the big

¹. Report of the Commissioner of Corporations, Part I - p. 258.

². Report of the Commissioner of Corporations, Part I - p. 256.

orders of large jobbing houses, To facilitate the filling of small orders, assembling and distributing depots were connected with some of the factories, and the central depot at New York carried a complete stock of all the products of the various factories. At either of these places mixed shipments could be filled in one order.

The Commissioner of Corporations, in the report on the tobacco industry, gives a list of the companies in the tobacco combination in 1906. Since we are interested especially in the distributing concerns, I have placed only the ones of that nature in the following table-

Distributing Companies in the Tobacco Combination(1906).

Name	Outstanding Capitalization	Held by the Amer. Tob. Company.
Crescent Cigar and Tob. Co.	\$20,000.	\$20,000.
United Cigar Stores Co:		
Pref. Stock	750,000.	750,000.
Common	450,000.	340,000.
Bonds	750,000.	750,000.
United Cigar Stores Co. of Ill.	389,800.	375,800.
The Royal Co.	100,000.	100,000.
United Cigar Stores of R. I.		
Pref. Stock	80,000	80,000.
Common	18,000.	18,000.
Bonds	27,000.	18,000.
United Cigar Stores Agency	1,000.	1,000.
William Baeder & Co.	5,000.	5,000.
United Merchants & Realty Co:		
Pref. Stock	400,000.	400,000.
Common	100,000.	100,000.
J. & B. Moos		Held By Am. Cigar Co.
Pref. Stock	50,000.	-----
Common	100,000.	100,000.
J. & B. Moos Co.	200,000.	200,000.
Cliff Weil Cigar Co.(Inc).	50,000.	25,500.
J. Blaskower Co.		

Name	Outstanding Cap.	Held By Am. Cigar Co. io.
Pref. Stock	\$250,000	\$187,500.
Common	250,000	187,500.
LeCompt, Dusel & Goodloe Co.	56,100	29,100.
Jordan, Gibson, & Baum:		
Pref. Stock	25,000	25,000.
Common	25,000	16,000.
La. Tobacco Co. Ltd.	50,000	37,500.
J. J. Goodrun Tob. Co.	60,000	47,700.
R. D. Burnett Cigar Co.	15,000	7,700.
Smokers Paradise Co.:		
Pref. Stock	25,000	25,000.
Common	50,000	38,500.

The control of the distributing concerns listed above, was exercised entirely thru stock ownership. Other means of gaining control of concerns not considered part of the Combination, were - (1) Making special concessions and loans to them; and (2) thru agreement.¹

Naturally, the Combination desired to regulate the distribution of its product, and to prevent the practice of price cutting. For this purpose, the agreement method was adopted, and a system of consignment agreements or factors agreements as they were called, was outlined as the best means of controlling the operations of the jobbers. This was not a new idea of the Tobacco Combination, since it was also in use by other manufacturers at this time.² The agreements were used only by the parent company itself, while the American Cigar Company as we saw in the table above, adopted to a greater extent the policy of direct ownership or control of both the wholesale and retail distributors. The consignment method was not somuch a means of controlling the jobber as of controlling the price of the tobacco product.

1. Report of the Industrial Commission, Vol. XIII - pp. 39.

2. W. S. Stevens, Industrial Combinations and "trusts", p. 118.

The system was used extensively during the early history of the Combination up to about 1897. A copy of a Factors Agreement will be found in Appendix I. at the end of this thesis.

It was in the territories where the American Tobacco Company had already gained control of the market, that the Factors Agreements proved most effective. It was extremely difficult for an independent company to enter a field in which such agreements between the American Company and the retailers existed, because the latter were unwilling to give up the large profits which were secured by carrying out the provisions stated in the agreement. To take up independent brands would have meant the taking of a great risk on the part of these retailers. Moreover, the very long lists of American Tobacco Company brands, which were in such great demand by the consuming public, made it desirable that the dealers should be able to purchase these for their retail trade.¹

Following the Investigation of Trusts by the New York State Legislature in 1897 the officers of the company were indicted, and the Factors Agreements were abandoned for a time.² The Agreements later came into use however, and the legality of such contracts, was established by the courts of New York in 1906. The E. Locker Company had been unable to have its orders filled and brought suit against the American Tobacco Company. The court held that the American Company had the legal right to refuse to sell to any person or company unless it saw fit to do so.³ The Continental Tobacco Company made use of similar agreements with its jobbers by which it virtually controlled the plug tobacco market in New England. The arrangement

1. Jacobstein: Tobacco Industry in U. S. - p. 119. See also "Tobacco", Trade Journal, October 25, 1905.

2. Report of the Commissioner of Corporations, Part I - p. 309.

3. E. Locker & Co. vs. the American Tobacco Company. N. Y. 1906.

was however, somewhat different from the Factors Agreement, of the American Tobacco Company, it being unwritten and simply in the form of a proposition.¹

As first made, the proposition gave to the jobbers two cents per pound profit on the tobacco sold to the retailers, plus three per cent, this latter discount being given on condition that the jobber did not handle the brands of certain other companies - new companies just started, the principle one of which was the United States Tobacco Company. The testimony of Mr. Hugh Campbell before the Industrial Commission in 1901, shows how this company in particular was discriminated against by the American Company.

On January 1, 1901, the proposition was changed, and provided that the jobbers should receive only one cent per pound profit, but should be given an extra discount of five and one-half per cent in return for their refusal to handle independent goods.²

That both of these agreements which were being used by the Combination were strictly enforced, was brought out in the Investigation of Trusts by the New York State Legislature in 1897.

The "Admiral" cigarette of the National Cigarette Company were being sold very extensively at the time the American Tobacco Company instituted its system of consignment agreement. The agreements with the following lists of consignees were revoked because they sold this one brand, ("Admiral"), in violation of their contracts to the American Tobacco Company:

Monroe Cigar Co., Rochester, N. Y.

John McLaughlin, Lancaster, Pa.

Alexander Wilson & Co., Pittsburg, Pa.

1. Report of the Industrial Commission, Vol. XIII, p. 306.
2. Report of the Industrial Commission, Vol. XIII, p. 307.

Love, Sunshine Co., Johnstown, Pa.

Martin & Co., Pittsburg, Pa.

M. F. H. Woerner, Manayunk, Pa.

John Schwartz, Hazeltown, Pa.

John Rauch, Indianapolis, Ind.

August Rikebush, Milwaukee, Wis.

The agreements of . . . other jobbers were revoked because they pushed "Royal Sweets", another product of the National Cigarette Company. and a list received the same treatment at the hands of the American Company, because of cutting the prices on cigarettes which had been consigned to them.

Our discussion so far has dealt only with the methods of the Combination in its efforts to control the jobbers indirectly. As was pointed out early in the Chapter, it exercised complete control of many other distributing concerns thru stock ownership, the greatest number of which were controlled thru the American Cigar Company. The remaining number was controlled thru the American Tobacco Company.(See Table, page 9).

The first acquisition of the American Cigar Company had been in 1901 when the stock of J. & B. Moos, a corporation doing a large wholesale and retail business in Chicago, was purchased. Later the firm was re-incorporated under the name of the J. & B. Moos Company, and from then on confined its operations to the wholesale business.

The Cigar Co. in 1904 invested in the Louisiana Tobacco Co., and the next year gained control of the R. D. Burnett Cigar Co., the oldest jobbing and retail concern in Birmingham, Ala.

In 1905, the interest of the J. J. Goodrun Tobacco Co., of Atlanta, Ga., a company doing a jobbing business and operating a number of retail stores in Atlanta; the Cliff Weil Cigar Co., of

Richmond, Va., engaged both in jobbing and retail business; Le Compt Dusel & Goodoe, Inc., of Philadelphia, engaged in the same lines of business; the corporation of Jordan, Gibson, & Baum, of Memphis, Tenn., a jobbing house; the M. Blaskower Co., of San Francisco, engaged in the jobbing business; and the Royal Co., a New York concern, which operated in New York City a number of retail stores. The stock of this last company was later transferred to the United Cigar Store Company of New Jersey.

Control was obtained in 1906 of the Smokers Paradise Company, a jobbing and retail house in Atlanta, Ga., and in 1907 the Federal Cigar Company was organized as a selling agent for the machine made cigars of the Combination.¹

The most important company which the American Tobacco Company controlled before its disintegration was, however, the United Cigar Stores Company of New Jersey. It was found advisable that the Combination interest itself, by direct investment, in the retail sale of its products. It did this by securing stock in the United Cigar Stores Company, a concern which had been incorporated, in New Jersey on May 16, 1901, by a group of persons who were not connected with the tobacco trust. Owing to the financial weakness of the corporation at that time the American company was able to acquire a controlling interest upon very favorable terms.²

The business of the United Cigar Stores Company was that of operating a large number of retail stores in the various cities in the United States. At the close of the year 1906 it controlled the following subsidiary corporations:

United Cigar Stores Company, Inc., of Illinois.

United Cigar Stores Company, Inc., of R. I.

1. Report of the Commissioner of Corporations, Part I - pp. 199-318.
2. Report of the Commissioner of Corporations, Part I - p. 88.

United Cigar Stores Agency.

The Royal Co.

Moebs Cigar Stores Co.

William Baeder & Co.

United Merchants Realty & Improvement Co.

The entire number of stores being operated on June 30, 1907, was 392, and these were divided into three groups. The first group included 271 stores which were directly owned by the United Cigar Stores Company itself. In the second group were 78 stores owned by the United Cigar Stores Company of Illinois. In a third group group of stores, the United Cigar Stores Company of Rhode Island was the controlling company. The total number in this last group was 20.

The first group had two premium stations in New York City and one in San Francisco. Similarly, the Illinois company had a depot and premium station in Chicago, and the Rhode Island concern maintained a premium station at Providence, R.I.

On April 23, 1909, the Corporation of United Cigar Stores was incorporated in New York to extend the business which had been carried on by the United Cigar Stores Company, of New Jersey. All of the common and preferred stock and the six-percent debentures of the latter company passed into the ownership of this new corporation. It also acquired control of the United Cigar Stores Company of Illinois, the United Cigar Stores Company of Rhode Island, United Cigar Stores Agency, the Royal Company, the United Merchants Realty and Improvement Company, the Moebs Cigar Stores Company, and William Baeder & Company.
2

1. Report of the Commissioner of Corporations, Part I. - p.313.

2. Moody's Manual, 1910. - pp.38-61.

The three companies bearing the name United Cigar Stores Co., which have just been described, operated only in the large cities, and the United Cigar Stores agency was organized to handle the business in the smaller places.. Established dealers in these places were induced by the agency to act as representatives of the United Cigar Stores Company and were provided with stock advertising materials, etc., to give to their customers.

The United Merchants Realty Company was engaged in securing favorable locations for the establishment of retail stores.

In accordance with its policy of selling only thru the wholesale channels, The American Tobacco Company did not at first, sell its product directly to the United Cigar Stores Company. Later, however, this policy was changed, and the goods were supplied directly. Independent goods, as well as those manufactured by the Combination, were sold by the United Company.¹

An excellent example of the Combination's control over the concern by virtue of loans made to it, is seen in the case of the National Cigar Stands Company. This company was incorporated in New Jersey in 1905 and, while neither the American Tobacco Co., nor the American Ciger Co., owned stock in it, the former had made certain loans, which, in reality, gave it at least a partial control.

The National Company dealt only with druggists, and in consideration of the liberal discounts, and by providing part of the equipment, induced these druggists to handle only the tobaccos which it designated. In 1907 it had over 2000 such contracts in force throughout the United States.²

Besides the distributing companies already mentioned, the

1. Report of the Commissioner of Corporations, Part I - p. 315.
2. Report of the Commissioner of Corporations, Part I - p. 360.

Acker, Merrill & Condit Co., of New York City, has acted as distributor for the Havan cigars produced by the Combination, through the Havana Tobacco Company and the Havana-American Tobacco Company. In 1906 operated ten stores in New York City and had branches in twelve other New England cities.

The methods adopted by the Tobacco Combination in distributing its products in foreign countries were similar to those which had proved so effective in the United States.

During the struggle in England between the Imperial Tobacco Co., a corporation controlled by English interests, which was a combination of the largest tobacco concerns in that country, and Ogden's, Limited, a creation of the American Tobacco Company, the former had in 1902 sent out circulars to its customers announcing that it would distribute annually \$750,000 to those dealers who refused to handle, for a certain period of years, the goods of the American Company. This action was met by a counter-move by the managers of Ogden's, who telegraphed to some seven thousand dealers announcing the company's intention to give its net profit and a certain amount of cash¹, making a total of \$ 1,200,000 a year for the next four years to its customers. The offer did not require the dealer to handle Ogden's goods exclusively. About 4500 English dealers accepted the proposition.

It was evident that the competition could not be maintained by either the American or English companies for a very long time, and the result was an agreement between them and the subsequent formation of the British-American Tobacco Company.²

1. Commercial & Financial Chronicle, vol 74-p.632; vol 75-p.785

2. Moody's Manual, 1910 - p 2485.

The British-American Tobacco Company was incorporated September 27, 1902, under the laws of Great Britain and Ireland to acquire the export businesses and all businesses outside of the United Kingdom and the United States, of the various members of the Combination. Its authorized capital was £ 6,100,000. Thru ownership of a part or all of the capital stock, it controlled the following companies
¹
in 1910:

Name	Capital
American Tobacco Co., Of Canada, Ltd . Montreal.....	\$1,000,000
American Tobacco Co., Copenhagen, Denmark.....	Kr.100,000
G. A. Jasnatzi, Dresden, Germany.....	M 5,000,000
T. C. Williams, Petersburg, Va.....	\$400,000 .
David Dunlop, Petersburg, Va.....	\$450 ,000 .
British Cigarette Company, Shanghai, China.....	Mex.5,000 ,000
British American Tobacco Co.,Ltd., Calcutta, India	£ 40,000
Mustard & Co., Shanghai, China.....	\$575,000
United Tobacco Companies, Cape Town, South Africa.	£800,000
Maspero Freres, Ltd., Cairo, Egypt.....	£ 30,000
Jamaica Tobacco Co., Kingston, Jamaica.....	\$200 ,000
Peninsular Tobacco Co., Ltd., Karachi, India.....	£ 10 ,000
British-American Tobacco Co., Ltd., Colombo, Ceylon	£ 7,500
Emile Boussard, Ltd., Belgium.....	£ 20,000
Nya Aktiebolaget, Cigarettfabriken Orient, Stockholm, Sweden.	Kr2,000 ,000
W. S. Matthews & Sons, Louisville, Ky.	\$500 ,000 .

Aside from its interest in the manufacture and sale of tobacco, the trust had, as a part of its gigantic system, certain concerns which were engaged in enterprises contributory to that of the regular tobacco business. Some of these companies were engaged in
1. Moody's Manual 1910. p 2485.

the manufacture of tobacco machinery; others in making boxes, tinfoil, and other such accessories; some in manufacturing tobacco products such as nicotine, fertilizers, etc.; and still others in the manufacture of pipes.

These contributory enterprises were created or acquired as a part of the distributing organization of the company.

The most important of these was the Thomas Cusack Company, which carried on a business of bill-posting and dead-wall advertising. The American Tobacco Company had always advertised extensively by these means, and in 1903, the Cusack Company offered to transfer to the American Tobacco Company, ¹ two-thirds of its common stock. The Cusack company had been incorporated in New Jersey in 1903 to take over a previously existing company of the same name, and when the American Tobacco Company received \$100,000 out of the total common of \$150,000 stock of the new corporation, it assumed virtual control, since the preferred stock issued had no power in the election of directors so long as dividends were paid. The services of the persons previously connected with the business were retained, since the tobacco men, as a rule, had had no previous experience in the bill-posting business,

Another means toward assisting in the sale of its tobacco products was taken when the Combination acquired control of two pipe companies, which were engaged in the manufacture of smokers' accessories and supplies, including pipes, cigar holders, and cigarette holders.

The determination to enter this field of industry came about as a

1. Report of the Commissioner of Corporations, Part I - p.92.
2. Moody's Manual, 1910.

result of the special attention which the chain stores of the United Cigar Stores Company paid to the sale of smokers' supplies. The Manhattan Briar Pipe Co., which was the successor of the Brunswick-Briar Pipe Co., along with its subsidiary, the Baltimore Briar Pipe Co., came under the control of the American Tobacco Co. in 1902.¹

In the year of 1901 to 1904 the Combination carried the business of distributing premiums to its customers to a degree never exceeded by the manufacturers of any other product. When this branch of the business became of such great importance, the Floradora Tag Company was organized to handle it. The importance of this concern, was however, not of long duration, since the Combination discontinued the giving of premiums a few years later.²

It was not until fifteen or twenty years ago that any magazine of large circulation existed. In looking through over a dozen old magazines, I found that tobacco products were, in the early '90's, not highly advertised. In cases where such advertisements were to be found, the Combination's smoking tobacco, "Yale Mixture", was practically the only one of its products which was advertised through the magazine medium.

It was by means of bill-posting and the use of placards and signs that most of the products were put before the public eye. The name "Duke's Mixture", "Battle Ax", or "Star" was to be seen on signs and walls of buildings in both the city and rural districts. Sampling and the use of the coupon and premium systems, while carried on to some extent by the Combination, were not of such importance until after the disintegration.

1. Report of the Commissioner of Corporations, Part I - p. 259.
2. Report of the Commissioner of Corporations, Part I - p. 317.

Anti-trust agitation had for a long time, since the formation of the American Tobacco Co., has been strong, and, as early as 1888 both the Republican and Democratic parties had inserted anti-trust planks in their respective platforms. The outgrowth of this action was a passage on July 2, 1890, of the Sherman anti-trust act. In the meantime the State Legislatures had been active, and by 1894 about 20 states had passed legislation looking toward the suppression of trusts, pools, and other combination.¹

Even before the passage of such legislation the judiciary had been making trouble for the trusts, the first action having been taken by the State of Louisiana against the American Cottol Oil Trust in 1887.²

The tobacco Combination was first attacked in 1897, when it was investigated by a committee appointed by the New York State Legislature. The suit against the Combination by the U. S. government was commenced on July 19, 1907 and was directed against 29 individuals, 65 American corporations, and 2 English corporations. The bill charged that the individual defendants and the defendant corporations were engaged in a conspiracy in violation of the first section of the Sherman act, and also were attempting to monopolize and were actually a monopolization of trade in violation of the second section.³

The dissolution of the Combination was ordered on May 29, 1911 by the U. S. Supreme Court, and in the following December under the plan of disintegration there was sold to the new Liggett & Myers Tobacco Co. and the P. Lorillard Co., factories, brands and businesses

1. Stevens, Industrial Combinations and Trusts. p. 43.

2. Stevens, Industrial Combinations and Trusts. p. 52

3. U. S. vs. the American Tobacco Co. and others. Appeals from the circuit court of the U. S. for the southern district of N. Y. pp. 1, 3.

having a total book value of \$115,000,000, and there was distributed to the common stock holders out of its surplus securities of a book value of \$34,627,249.¹ The American Tobacco Co., after the aforesaid sale, was left with a tobacco business as follows:¹

Company	Annual value of products	Nature of business
Blackwill's Durham Tob. Co.	\$13,787,717	Smoking tobacco
Butler-Butler, Inc.	2,325,778	Cigarettes
Danville & Baltimore Branches	681,448	Little Cigars
	1,746,144	
Duke Branch of the Am. Tob. Co.	667,238	Smoking and fine cut
Felgner Branch	1,941,647	Smoking tobacco
Kinney Branch	6,246,417	Cigarettes
Marburg Branch	4,334,072	Smoking tobacco
Mayo Branch	1,436,509	Smoking tobacco
Nashville Tobacco Works	2,777,331	Plug and smoking
Penn Street Branch	5,920,454	Cigarettes
P. J. Sorg Branch	4,848,845	Plug
National Tobacco Works	8,601,597	Plug
<u>Finzer Branch</u>	<u>3,096,948</u>	<u>Smoking tobacco</u>

1. Moody's Manual for 1914 - p. 1295.

Chapter III.

Circuit Judge Coxe, in the case against the tobacco Combination, in which the dissolution was ordered, said "The plan disintegrates the monopoly and liberates trade; but it accomplished all this without a wanton destruction of property."

In the following few pages, an attempt will be made to show how the trade was carried on after 1911, and what the selling methods of the various competing concerns are at present.

In addition to providing for disintegration, the decree entered a number of injunctions against the companies in the combination. These injunctions provided that "none of these companies shall directly or indirectly co-operate in the control or management of a corporation, or in fixing the prices to be charged for the manufactured product, or for the apportionment of trade, either with respect to customers or locality; that none of them shall convey businesses to another, and none of them should have the same clerical organization or the same office of offices, that none of them should hold stocks in a company in which another holds stock."¹ These orders were made by the court in recognition of the possibility of a feigned and not a real competition.

According to Mr. Percival S. Hill, President of the American Tobacco Co., these injunctions against secrecy and restraint put the defendants including the new companies, under a really different law than that which governed other concerns. By the terms of the decree the products of these subsidiaries, which bear the name of the manufacturer of all, must now bear a statement showing the owner of the stock.

1. Statement of Percival S. Hill, President of the American Tobacco Co., 1912. p. 8. See also Decree against the Am. Tob. Co. in Stevens' Industrial Combinations in Trusts, p. 416.

The independent tobacco companies were not satisfied with the dissolution plan. This objection was voiced by the National Cigar Leaf Tobacco Organization, the Cigar Manufacturer's Association, and the Independent Tobacco Salesmen's Association. They objected to the plan of common ownership of stock, but the distribution of the bulk of the business among four large concerns,^{was} the feature of the plan which they most vigorously attacked. It was their contention that these three or four companies would have such a dominant control that they would together be in a position to crush the independents even more effectively than had been done in the past.¹

The four companies referred to were the American Tobacco Co., Liggett & Myers Tobacco Co., P. Lorillard Co., and the R. J. Reynolds Tobacco Co.

The American Tobacco Co. and the Reynolds Co. were members of the old Combination. Liggett & Myers was a new concern organized under the orders of the decree, it having its offices and largest factory in St. Louis. The P. Lorillard Co. was another such concern, and its offices and largest factory are located in Jersey City.²

Put in a position by the decree and the accompanying injunctions, where it must actually compete, not against a few weak independent concerns, as had formerly been the case, but against three concerns, each of which was about its equal in size, the American Tobacco Co., was forced to outline a new policy for the distribution of its product. Injunctions having prevented the use of agreements with jobbers, the company entered the field of competition, depending upon the efficiency of its selling methods for maintaining a high position in the tobacco world.

1. W. S. Stevens, Industrial Combinations and Trusts, p. 486. See also Hearing before the Committee on Interstate Commerce, U. S. Senate, 62d Cong. 2d Sess., 1911-12. p. 315-322.

2. Same as (1).

There are over 5,000 jobbers dealing directly with the American Tobacco Co.¹ Consignment agreements are a thing of the past, and any jobber who has a good commercial rating may purchase goods from the American Co. The plan of co-operation among the fourteen constituents of the company is carried out at present, as was the case before the dissolution. Depots are maintained at various large cities, but the one at New York is the most important.

Efficiency is the aim of the company. The salesmen which probably number over 1,000, are given special training, and recently a policy of selecting salesmen by psychological test, has been adopted. All applicants for positions as salesmen are examined by Professor Hugo Munstenberg of Harvard University, and the selections are made on the basis of the outcome of such tests.²

One of the common schemes for encouraging the sale of certain articles, has until recently been that of giving bonuses. With a certain size order, an extra amount of tobacco was usually placed in the package, and given free of charge. This reduced the actual cost of the tobacco,^{and} tempted the distributor to cut the price.³

Price-cutting on the part of retailers has come to be one of the greatest problems which the manufacturer of trade-marked articles has to deal with. The economic effects of this practice will be discussed in Chapter IV.

The attitude of the American Co. towards this practice is very clearly brought out by the action of President Hill when, in 1913, he took steps to stamp it out in New England. A price-cutting war

1. Statement of Percival S. Hill, Pres. of the American Tob. Co. p.9.
2. U. S. Tobacco Journal, Nov. 21, 1914. p. 21.
3. Printers' Ink, Nov. 16, 1911.

between two companies in New England, which operated department stores was brought to a close by the action of the American Tobacco Co. The greatest sufferers were those independent cigar dealers who could not meet the deep cuts of the larger stores, and who had lost thousands of dollars. When their condition had grown very bad a mass meeting was called in Boston. A representative of the American Tobacco company attended this meeting, and within a few days President Hill sent out a letter to more than a hundred thousand New England cigar dealers and stores handling cigars, offering the companies support to the retail dealers and announcing that he would cut off all premium gifts from the stores failing to maintain prices on cigars, cigarettes, and tobacco. The loss of these premiums would have meant the giving up of a very important advertising device. Placards announcing the premiums were prepared by the American Co. and the standard price of the article to be sold was prominently displayed. Stores that intended to cut the prices could not use the placards and consequently get the premium. In the letter mentioned Mr. Hill said, "We distinctly disapprove of the price cutting by various chain stores.....it is unfair to the manufacturer, whose goods are sacrificed, and to the merchant, who is entitled to a fair profit!"¹

This brings us to a discussion of the premium system which is used more extensively in a tobacco industry than in any other branch of business. The American Tobacco Co. always has been one of the most important givers of premium, and the chief feature of their plan is the offer of a gift with purchases of goods at the full retail price. In order to get the premium the dealer is obliged to display

1. Printers' Ink, September 11, 1913.

signs which advertise the premium offer and are furnished by the company. The plan was so successful in coping with the price-cutting problem in 1913 that the company extended it in its endeavor to counter-act the widespread tendency of smokers during that period of depression, to adopt the less expensive brand.

In commencing its campaign, the company advertises in the leading dailies in the cities where the plan is to be operated. Usually the offer is given on one day only in each locality, and as the "deal" penetrates to other parts of the country, similar newspaper advertising is used.¹

Premiums are selected which most logically go with the tobacco or cigarettes offered for sale. Gifts which appeal to a certain class of smokers are offered with tobacco products which this class is in the habit of buying. For instance, a pack of Congress playing cards is sometimes given with a ninety cent jar of Tuxedo smoking tobacco, while with some of the five cent cigarettes a flag or button is given. To the casual observer, it would seem that this practice of giving away an article almost equal in value to the product sold would be a very expensive process.

Another method by which the premium plan is utilized is through the use of coupons, this method having first been used by the P. Lorillard Co. Coupons inserted in the packages which are bought by the customer can be exchanged either for presents or a certain amount of cash. The coupons are very highly regarded in certain parts of the country and are as negotiable as currency when used in their proper channels.²

A regular corps of traveling "premium men" is maintained by

1. "The Selling Problem": The American Sunday Magazine Co. Article by Mr. C. A. Wessel. p. 63.
2. Same as (1). p. 65.

Liggett & Myers. These men carry full stocks of merchandise and cover regular territories at definite periods. In the biggest cigar store of the town they stay for several days at a time to simply redeem premiums which are brought in. The American Tobacco Co. has premium stations in different parts of the country and uses the system of traveling premium men as well.

At one time the American Co. even distributed coupons which were good for admission to moving picture shows. This was abolished shortly however, as a result of the coupon begging on the part of children.¹ There was great fear that the coupon system would have to be abolished, when in 1913 representative Stanley introduced a bill into Congress levying a tax of two cents on the issuance of coupons, and on the redemption, payment, purchase or exchange of coupons, prize tickets, tags, and other devices which were given away with tobacco products. The bill was killed; had it been enacted it would have stopped the giving of coupons inasmuch as the proposed tax would have been prohibitive. Manufacturers of tobaccos selling at five cents could not have afforded to pay a two cent tax on every coupon issued.²

It should not be concluded that the system of inserts in the packages was a creation of the American Tobacco Co. Many progressive concerns other than those engaged in the tobacco business are making use of such inserts as premium coupons, premium lists, guarantee slips, recipes, etc.

Mr. Roy W. Johnson in writing on the premium system, states that a certain concern made a premium offer of a single article costing less than twenty five cents. The concerns total purchase

1. The Selling Problem p. 65.

2. Printers' Ink, May 11, 1913.

For an account of the Underwood anti-coupon bill, the U. S. Tobacco Journal, Feb. 28, 1914.

of this article ran up into one quart^e of a million dollars in a single year.

The average premium which is given to a customer represents from two and one half to five per cent of the value of the article sold. When we stop to consider that this vast amount of premium purchased by this one concern represents the sale of at least twenty times the value of those premiums it is easier to comprehend why the system has been adopted by so many large and progressive concerns.¹

Some concerns have even developed the premium department so that that it makes a profitable mail order business. In cases where presents are offered for part premium and part cash this is especially true. The premium business is, however, not primarily a merchandising proposition. From the manufacturers' point of view it is merely a method of getting better distribution of his goods, and he looks upon the money spent for premiums as an advertising expense.

The inserts which are put in the packages are given in even the five cent cigarettes of the American Tobacco Co. The silk inserts are very expensive and were previously confined to cigarettes which retailed for ten cents or more. Now, since the companies which formerly made up the tobacco Combination are fighting among themselves, these inserts have been given with even the cheapest brands. The cost to the American Tobacco Co. of this former present alone amounts to about \$300,000 a year.²

The methods employed in introducing a new brand are much the same with all of the four big companies. The following account shows

1. Printers' Ink, Dec. 2, 1911.

2. Statement of Percival S. Hill, Pres. of the American Tobacco Co., p. 8.

how the P. Lorillard Co. went about to introduce its new brand of Stag smoking tobacco, and shows what enormous expense is gone to.

After the tobacco trust had been dissolved, the P. Lorillard Co. had 160 brands of tobacco but no smoking tobacco in tins. The "Tuxedo" and "Lucky Strike" of the American Co., R. J. Reynolds' "Prince Albert", and Liggett & Myers "Velvet" dominated the market at that time. The first process was that of selecting a good name and then to give the product a good tryout before actually putting it on the market. Next came the samples, each salesman being allowed to give away twelve cans per day. In the larger cities this sampling was done on a large scale by crews. All this was merely introductory to the real selling campaign, and magazine and big city newspaper advertising was then provided for. First came a page "ad" in the Saturday Evening Post. This was followed a month or two later with pages and dovers in other national magazines and in the large city newspapers; ads ran from three to four months.

When the campaign had been under way for a year, out door advertising was resorted to, with large displays in color on the walls in New York and Chicago.

The American Tobacco Co. is without doubt the greatest advertiser in the tobacco business and holds a prominent position with reference to all forms of business. Printers' Ink for Jan. 2, 1913, gives a list of 25 of the most important magazine advertisers in the year 1912, arranged according to the number of agatelines used. In this list, the American Tobacco Co. occupies 13th place, and is the first mentioned of the tobacco companies.¹

The Boston News Bureau points out that the advertising cost of the American Co., Liggett & Myers, P. Lorillard, and the R. J. Reynolds Co. had, during 1912, been twice over the advertising cost
1. See Appendix 2.

of the old Combination on the same brands.¹

Another important advertising medium which is used more by the American company than ^{by} any of the others is that of street car cards. Advertisements of "Tuxedo" or some other American Tobacco Co. product are to be found in practically all of the city railways, subways, and interurbans throughout the country. The newest idea in car advertising is that of using as many as three allotments of space in a street car or subway car for an advertisement which covers but one of such spaces. The additional room is used simply to emphasize the effectiveness of the center card.²

As has been stated, sampling is used very extensively and especially when introducing a new brand. It is also the practice in some instances to provide free cigarettes for patrons of cafes and theatres in the larger cities.

The admirable foresight of the American Tobacco Co.'s management is reflected in a scheme which was carried out last year, when business conditions in the south became bad as a result of the war, the American Tobacco Co. saw a chance to push certain of its brands in that part of the country. A letter was consequently sent to the customers of the company, announcing that at ten cents a pound the company would buy as much good midland cotton, pound for pound, as its customers would buy of three brands made by the American Tobacco Co. during the period from September 29 to Nov. 30.

1. Printers' Ink, April 10, 1913. p. 108.

2. United States Tobacco Journal, Janurary 24, 1914.

From what has been said with reference to the selling methods of the American Tobacco Co., it would seem that actual competition did exist. It may seemt to some that competition does exist only as between the four big companies, and that the remaining concerns were in a worse position than before. The following table, taken from Moody's Manual for 1912 shows how the industry was distributed, according to volume and value under present conditions:

American Tob. Co.	-Volume	37.11	33.08	25.32	9.94	15.43
	Value	33.15	40.53	22.98	16.52	13.41
Liggett & Myers	-Volume	27.82	20.05	33.83	41.61	43.78
	Value	21.03	16.47	37.84	36.26	38.69
P. Lorillard	-Volume	15.27	22.82	3.73	5.72	27.80
	Value	26.02	18.88	4.64	2.88	29.57
American Cigar Co.	-Volume				6.06	
	Value				8.90	
American Stogie Co.	-Volume				1.58	
	Value				1.58	
American Snuff Co.	-Volume				32.05	
	Value				35.55	
George W. Helme	-Volume				30.88	
	Value				28.95	
Weyman-Burton	-Volume				29.25	
	Value				27.68	
Other Independents	-Volume	19.80	21.39	19.05	86.64	20.65 7.82 6.95
	Value	19.80	21.39	19.05	86.64	20.65 7.82 6.95

Chapter IV.

"Monopoly", is defined in Webster's Dictionary as "the sole power of vending any species of goods, obtained by engrossing the articles in market by purchase, or by a license from the government confirming the privilege". Today, the term is given a somewhat different construction and is used in referring to any corporation which has gained sufficient control of the market to be able to restrain free and active competition.

The American Tobacco Co. was such a monopoly. As was pointed out in Chapter I, it did not become a monopoly because of any special privileges, but was from the very start, a combination of interests. When the corporation grew in size, the control it established began to be considered not in accord with the American ideas of liberty, and legal interference followed. The dissolution was effected in 1911, and broke the old Combination up into fourteen concerns. The injunctions preventing secrecy and restraint made any combination of interests impossible.

A closer study will show what the economic effects of some of the practices followed by the Combination, were.

Price-cutting was one of the earliest methods which characterized the company's policy of destroying competitors. It was price-cutting which caused the surrender of the majority of the plug tobacco interests which came under the Combination's control when it had determined to dominate that branch of the industry. It was price-cutting which caused the Imperial Tobacco Co. to give up, when in 1901, it had become a powerful rival of Ogden's Limited, in Great Britain. Retail tobacco stores made more use of it than of any other method, and the independents retaliated in the same

manner.¹

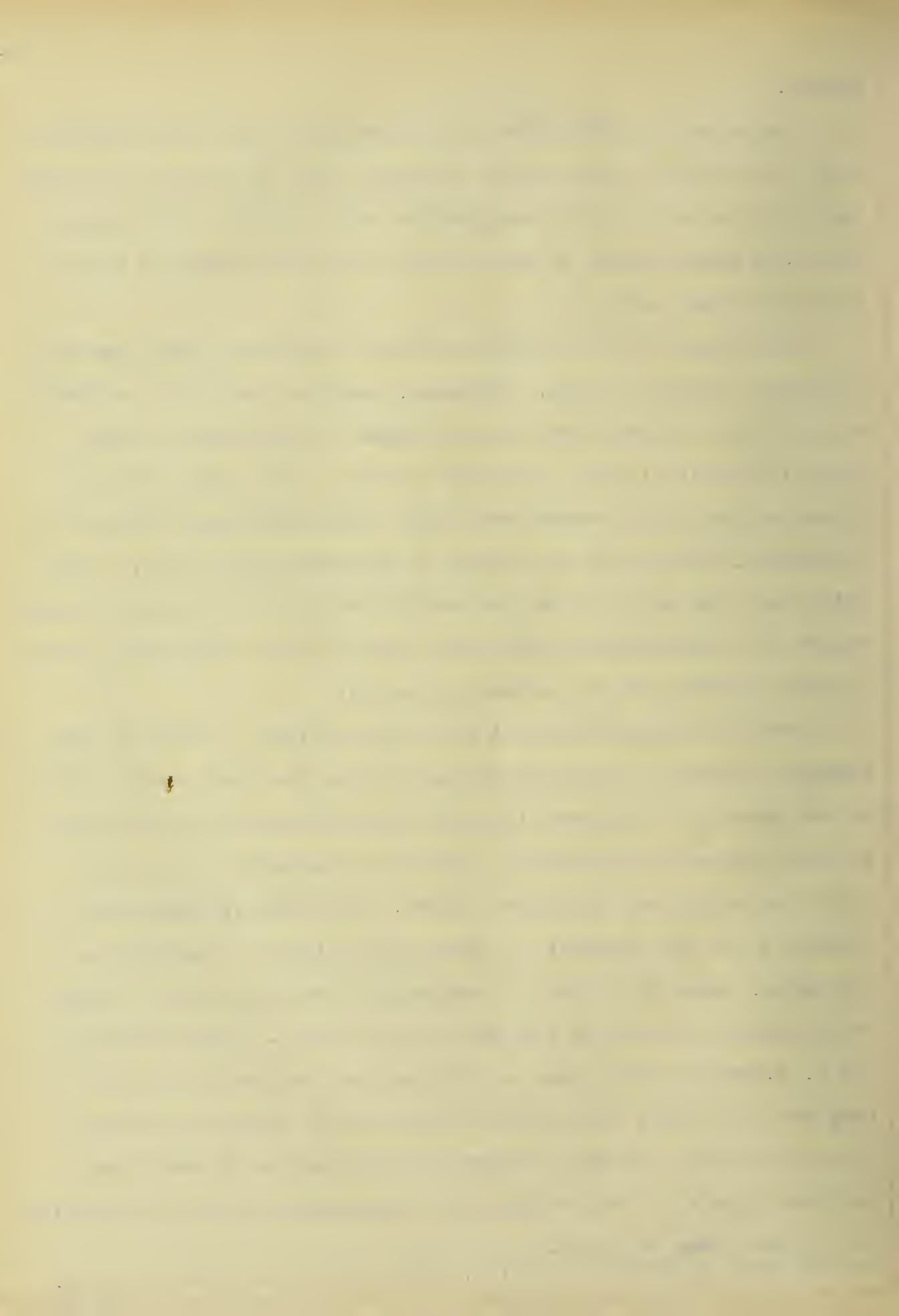
The object of the cutting prices is to advertise, and to get persons into the store for the purpose of buying, not the article on which the price is cut, but the merchandise which is sold sufficiently above the normal price to make up for the losses suffered on the "reduced price" goods.

The history of the tobacco business proves that this was not a desirable weapon to use. "Tobacco, candies, perfumes, and other products are purchased invariably because of the appeal of the specific article to the individual's taste. The only effect of price-cutting is to remove the product from one class, and put it in another, often with the result of destroying its value."² Very often too, the price cutter has established by his practice a reputation for unreliability, while the owner of the "one-price" store is more respected by the consuming public.

Does the consumer benefit by price-cutting? A study of the economic effects of the practice shows that the small amount saved by one group of purchasers is greatly over-balanced by the losses of those persons who have been induced to purchase other goods which are being sold at higher prices. Moreover, it is made more difficult for the cusomter to secure the article in question at any price, since by virtue of cutting its original price, it has been lowered in value in the eyes of the public. Judge Holmes of the U. S. Supreme Court has said "I can not believe that in the long run the people will profit by this court permitting knaves to cut reasonable prices for some ulterior purpose of their own, and thus impair, if not destroy the production and sale of articles

1. Outlook, June 21, 1913.

2. Statement of Percival S. Hill, Pres. of the Am. Tob. Co. p. 6.



which it is assumed to be desirable that the public shall be able to get."¹

The practice has been used consistently by both the small dealer and the chain-store cigar dealer, but it is the opinion of tobacco men that the independent dealers are the worst offenders.

"The Stevens Bill" will probably be the most important measure to demand the attention of Congress when it again convenes. The object of this bill is to restore to the manufacturers of standard trade-marked articles, which do not constitute a monopoly, the right to fix a price at which they are to be re-sold.² The passage of this bill would be a much more effective means of overthrowing the practice than any amount of effort which might be put forth by the manufacturers themselves. Some of the State Legislatures have already passed anti-price cutting laws.

The economies which came to the tobacco combination by virtue of its large capital were reflected principally in the advertising and distributing costs. Through its large contracts, very favorable prices were obtained. The Cusack Co. of Chicago, as has been mentioned before, even gave one-third of its stock in exchange for bill-posting contracts of the Trust. Thousands of dollars could be spent in a single advertising campaign by the tobacco combination, as was evidenced by its participation in the "bale of cotton" movement in the South last year. No independent producer has ever been able to advertise so extensively.

In the distribution of its goods the fact that the Combination controlled so many plants, and that depots were maintained at many

1. Printers' Ink, Vol. 83, p. 74.

2. Current Opinion, May 1915.

of them, made the savings in freight run into a very high figure within a year.

From the standpoint of the benefits to society, it is the writer's opinion that a more ideal competitive condition in any industry could not be instituted than that which exists at present in the tobacco business. The advantages of large scale production are retained through the existence of those four large companies, namely the American Tobacco Co., Liggett & Myers, the P. Lorillard Co., and the R. J. Reynolds Co., each of which is able to produce very efficiently, and to offer to the public a very high grade and reasonably-priced product. At the same time, such a rivalry exists between these companies that a combination of interests is impossible, and the absorption of small dealers can not be effected. On the other hand, these small dealers are able to hold their own.

Adequate control of corporations and the abolishment of trusts, pools, and combinations has been the subject of the greatest governmental activity within the past few years. The Sherman law has been criticised as being inadequate to prevent combination in restraint of trade. During the present administration, Congress has been dealing with the problem, and the "Clayton Bill", which was signed by the President on October 15, 1914, is a supplement to the Sherman Act and is intended to make up the deficiencies of the latter.¹

Perhaps an even more important governmental movement has been the establishment, several months ago, of the Federal Trade Commission. The Commission is to be merely a merger with the Bureau Corporations and to be associated with the Commissioner of Corporations and his work. The first plan provided only for three members,

1. Review of Reviews, Nov. 1914.

but a later and final draft increased the number to five.

The object of the Trade Commission is to regulate the industrial corporations of the country, excluding railroads and banks, which are capitalized at five million dollars or more.[#] It may require reports from these corporations at any time it may see fit, and can cause legal action to be brought against any companies which are operating in restraint of trade.¹

Such regulation is without doubt a great improvement in the attempts of the government to deal with the trust problem. It is too early, as yet, to try to determine just how efficiently the Clayton Bill and the Trade Commission will solve the problem, and any comment on the subject would be mere speculation.

The enforcement of the bill and the activity of the Commission, if accompanied by punishment of officers and directors by fine and imprisonment, should prove an effective means of dealing with the problem. But the real value of any system, no matter how perfectly it may, from the theoretical standpoint, conform to economic law, will all depend upon the character and ability of the men in the Commission and of the men who have charge of the legal proceedings against the corporations in question.

1. Review of Reviews, Nov. 1914.

[#]This provision makes several of the tobacco companies besides the American Tobacco Co., subject to the regulation of the Trade Commission.

Appendix I.
CONSIGNMENT AGREEMENT.

P. O. Box 2591,
New York, Oct. 1, 1895.

Dear Sir:

We will gladly consign to you for sale, on commission, our various brands of cigarettes, such cigarettes to be sent by us, and received, sold and accounted for by you, upon terms and conditions as follows, namely:

First: All cigarettes which we may send to you, you are to sell to the retail trade only for retail purposes; you are to sell none to other than retail dealers except by our written permission.

Second: You shall, at all times, sell our cigarettes at such prices as we may fix in selling lists sent to you. You shall not sell, or dispose of, any cigarettes at lower prices than those so fixed.

Third: You are to guarantee all sales made by you. An extra compensation of 2 per cent will be allowed, and can be deducted by you, on all advances made upon consignments which are remitted to us within ten days after the date of shipment to you.

Fourth: All cigarettes consigned to you are to remain our property until sold by you, subject to your lien thereon for all advances which you have made under the terms of this agreement.

Fifth: The cost of freight from our factories is to be paid by us, or, if paid by you, to be allowed to you by us on account.

Sixth: You are to guarantee us against loss by fire or otherwise of any cigarettes consigned to you, and you are to either return to us the cigarettes in good condition or the price of the same as fixed on our selling lists as above mentioned. You are also to pay all charges and other expenses of every nature connected with the storing, keeping and selling of cigarettes which we may consign

to you, or for your account, after the delivery thereof by us to the common carrier, including all state, county and municipal taxes and license fees.

Seventh: If you do not discriminate against our cigarettes in favor of those of other manufacture, and if you do not sell, or dispose of, any of our cigarettes at less than the list price, and if, in all respects, you comply with the terms of this agreement, we will pay you a commission of two and one-half per cent on the amount realized by you from the sale of the cigarettes which we may consign to you.

Eighth: If, however, you handle cigarettes of our manufacture exclusively, and do not sell or distribute, or in any way aid in the sale, or distribution of, cigarettes of other manufacture, and if you, in all respects, fully comply with the terms and conditions of this agreement, we will pay you an additional commission of seven and one-half per cent on the amount realized by you from the sale of the cigarettes which we may consign to you.

Ninth: Settlements and payments of commissions are to be made as follows:

On April 1, 1896, or as soon thereafter as practicable on all cigarettes consigned by us to you from the date of your signing this contract to January 1, 1896, which have been sold by you and settled for prior to April 1, 1896.

On July 1, 1896, or as soon thereafter as practicable, on all cigarettes consigned by us to you during the three months ending April 1, 1896, which have been sold by you and settled for prior to July 1, 1896, and so on from quarter to quarter thereafter, in the same manner, for subsequent consignments, sales and payments.

Tenth: All obligations upon our part to pay you any commission

for the sale of the cigarettes which we may consign to you is, and shall be, dependent upon your strict compliance the agreement herein before contained that you will not sell any of our cigarettes for a less price than that fixed in our selling lists sent to you. If you shall sell, or dispose of any of our cigarettes at less than such price, you shall forfeit all right to the payment of any commissions on cigarettes which you may have previously sold, and on which commissions have not been paid you, and you shall at once, on demand, pay to us the list price for all cigarettes which you have sold, and deliver to us all of our cigarettes then in your possession which may have been previously consigned by us to you.

Eleventh: Upon your acceptance in writing of the terms and conditions of this agreement, you understand and agree that you will handle our cigarettes exclusively, on the terms and conditions herein specified, and in the event that you hereafter determine to sell cigarettes of other manufacture, you are to notify us, in writing, of such determination; and thereafter, if you have fully complied with all other terms of this agreement, the commissions to be paid to you for sale of our cigarettes shall be at the rate of two and one-half per cent.

Twelfth: If you shall sell or distribute, or in any way, directly or indirectly, aid in the sale or distribution of any other cigarettes than those of our manufacture, without having first given us written notice of your intention to do so, as required by paragraph eleventh, you shall not be entitled to claim or receive any commission not previously paid to you in excess of two and one-half per cent on any part of future sales under this agreement; and the right and option is hereby distinctly reserved to us to determine and declare that you have surrendered all right to be paid any commission over

the said rate of two and one-half per cent, if we shall be satisfied that you have in any way aided in the sale or distribution of cigarettes other than those manufactured by us.

Thirteenth: We reserve the right of determining, at all times, as to the number of cigarettes and the brands which we will consign to you under this agreement, we to determine the matter before or after receiving requests and reports from you; and you expressly agree that you will promptly make reports, or account of all sales, to us, whenever, and as often as, we may call for the same.

Fourteenth: The right is reserved to us at any time, to decline to sell you any more cigarettes, and to withdraw the cigarettes already consigned to you, upon repaying to you all your legitimate advances thereon, and the right is reserved to you, at any time, to refuse to act further for us, after having delivered to us all cigarettes then in your hands, and paying over to us the proceeds of all sales of our cigarettes at list price.

Fifteenth: Requests for consignments, as well as all advances and sales with New York exchange, must be paid to our office in New York. Commissions will also be settled and paid from there.

Sixteenth: No employee of this company has any authority whatever to change or modify this agreement, or any circular, letter, or price list of this company.

Your agreement in writing hereon to receive our cigarettes on consignment and to sell and account for the same, under the above conditions when executed by you, will constitute a binding contract between you and our company.

Very truly yours,

The American Tobacco Company,
By _____

agree to receive cigarettes
on consignment from the American Tobacco Company, and to sell the
same, and to account to said company therefor, upon the terms and
conditions set forth in the foregoing written proposition to us.
To the faithful performance of all such terms and conditions we hereby
agree and bind ourselves.

Dated _____ 1895.

(Sign Here) _____

In the presence of

(Witness sign here) _____

City or town _____

State _____

Appendix II.

SMOKING TOBACCO.

Amer.Tob. Co. [REDACTED]

Liggett-Myers [REDACTED]

P.Lorillard [REDACTED]

R.J.Reynolds [REDACTED]

Others Co's. [REDACTED]

CIGARETTES

Amer.Tob.Co. [REDACTED]

Liggett-Myers [REDACTED]

P.Lorillard [REDACTED]

R.J.Reynolds [REDACTED]

Others. [REDACTED]

CIGARS & PLUG TOBACCO.

Amer.Tob.Co. [REDACTED]

Liggett-Myers [REDACTED]

P.Lorillard [REDACTED]

R.J.Reynolds [REDACTED]

Others. [REDACTED]

Showing extent to which each company advertises in popular magazines. Compiled after an examination of 25 periodicals for April and May, 1915.

Appendix III.

The Tobacco Industry by States showing number of establishments and persons employed. (Compiled from U.S.Census, 1910., Vol.IX.)

State	No. Estab.	Persons engaged	Value of prod., \$
Alabama	27	192	72,211
Arkansas	19	76	84,201
California	32	225	3,300,495
Colorado	99	563	792,090
Connecticut	265	1,861	2,738,380
Delaware	19	293	1,048,638
Dist. of Columbia	21	85	109,322
Florida	229	13,434	21,575,021
Georgia	50	435	505,929
Illinois	1,944	10,707	21,870,252
Idaho	24	108	170,730
Indiana	470	3,416	4,155,348
Iowa	372	2,523	3,423,488
Kansas	141	601	681,683
Kentucky	226	4,877	18,597,786
Louisiana	(No figures given)		
Maryland	263	4,098	10,558,807
Maine	77	351	463,917
Massachusetts	417	4,258	7,888,162
Michigan	729	9,242	16,178,533
Minnesota	539	2,130	3,364,792
Mississippi	5	14	12,558
Montana	53	202	320,301
Missouri	477	5,980	327,9977
Nebraska	151	740	1,072,026
Nevada	4	23	27,048
New Hampshire	51	640	1,249,727
New Jersey	462	10,610	24,177,343
New York	3,371	36,197	76,661,552
North Carolina	43	9,065	35,986,639
North Dakota	28	68	98,178
Ohio	1,146	14,681	28,907,269
Oklahoma	29	75	25,544
Oregon	56	251	473,846
Pennsylvania	47	1,190	1,445,652
Rhode Island	65	360	536,534
South Dakota	59	287	454,281
Texas	67	428	508,695
Utah	28	196	325,235
Vermont	25	91	4,496,903
Virginia	104	8,978	25,385,314
Washington	114	455	680,304
Wisconsin	775	3,380	6,141,786
Wyoming	10	29	60,594

#.No statistics for several States. in Census Report.

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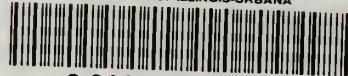
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